

STATE AUDITOR'S REVIEW OF THE VERMONT VETERANS' HOME

January 1999 through April 1999

Executive Summary

The Office of the State Auditor has conducted a review of the Vermont Veterans' Home (the Home), initiated as a result of substantial concerns raised about the management and staffing of the Home, particularly as they relate to the quality of care.

The Vermont Veterans' Home has been operating without the necessary support and guidance from the State that is required by law.

Our audit work found fundamental internal control and compliance problems in the governance of the Home and significant financial problems that relate to the governance deficiencies.

Background

The Home, located in Bennington, is a 208-bed, multi-winged Medicaid and Medicare health care facility that provides a range of long-term care services to eligible veterans and their family members. Operated for more than a century by a Board of Trustees (the Board), the Home is a State institution, all staff members are State employees, and the Home's \$10 million operating budget includes \$1 million in State general funds. Nevertheless, the Home has been functioning in many ways as if it were independent of the State, in part because of the State's failure to implement the 1970 legislation that created the Agency of Human Services (the Agency). That Legislation transferred the Board's duties and responsibilities to the Secretary of Human Services, redefined the Board's role as advisory to the Secretary, and attached the Home to the Agency for administrative support.

In practice, the Agency has had little or no role in managing the Home, and the Board, which meets infrequently, has had only a limited role. As a result, the Home's Commandant has operated with a level of autonomy that is unusual for the manager of a State institution.

The current arrangement has not worked well. Communications among the Board, the Commandant, the Agency of Administration (Administration) and the Legislature have been marked by frustration and misunderstanding. Staff shortages have occurred, finances have been improperly handled, and quality of care has suffered.

In November 1998, the Agency conducted a survey at the Home that found "isolated deficiencies" in the quality of care. Surveyors conducting a follow-up visit in January found new deficiencies and reported that "a pattern of deficiencies," had been found. In early February, the Federal government imposed a number of conditions for the Home's continued participation in Medicaid and Medicare programs and effectively froze new admissions.

In March 1999, after the resignation of the Commandant, the Agency contracted with a private firm to manage the Home. Agency surveyors visited the Home again in April and reported finding substantial compliance in all areas found to be deficient in November 1998 and January 1999. Since the completion of the fieldwork for this review, a new Commandant has been hired.

Governance

We found that little or no control over the financial and other operations of the Home was exercised by the Board or the Agency of Human Services. The Board met infrequently, the Agency provided little administrative support to the Home, and few of the administrative, policy-making and regulatory powers and duties that the law assigns to the Secretary were exercised.

We recommend that the Agency should provide supervisory and administrative support to the Home. The Board and the Agency Secretary should establish a working relationship that will afford the Secretary the benefit of the Board's advice in supervising the management of the Home.

Financial Operations

The Board and the Home maintained cash accounts totaling more than \$500,000 that were "off the books" from the State's point of view. The accounts were unauthorized by the State Treasurer and were improperly managed and accounted for. Expenditures were not authorized by appropriation or approved by the Administration.

In the case of endowments and donated funds, available records were insufficient to determine if such expenditures violated the terms under which the funds were donated or if the donations were accepted in compliance with law. As an example of improper expenditures, the Board paid more than \$17,000 in moving expenses to the departing Commandant and Deputy Commandant.

These payments were not processed as State employee expenses, but rather were paid out of the principal of the Endowment Fund.

We recommend that the Agency establish an internal control system at the Home that will sufficiently ensure compliance with Vermont law and Administration policy with respect to the authorization, approval, and reporting requirements for bank accounts associated with the Home, with respect to expenditures from these accounts, and with respect to the acceptance of items of value on behalf of the Home.

The Home should locate the source documents for all donated funds and the Agency should assist the Home in developing a public documents retention and disposition schedule.

We also found that the Home failed to comply with law and Administration policy regarding contracts for auditing services, legal services and temporary staff services. We recommend that the Agency ensure compliance in all contracts by or on behalf of the Home.

In other financial matters, **we found that the Home has fallen behind in collecting receivables and in writing off bad debts.** One of the consequences is that the Home's records report inflated assets and understated operating costs. The Home also has failed to return overpayments, accumulating a significant balance of old credit memos.

We recommend that the Home's receivables be reviewed, pursued, and either collected or written off. Credit memos should be applied to current billings, returned to payees or transferred to the State Treasurer.

We also found that **the Administration incorrectly assessed the Home's Medicaid receipts as special funds and mistakenly transferred more than \$100,000 from the Home to the general fund.** We recommend that the Medicaid funds not be assessed.

Staffing and Positions

A local shortage of available, full-time nursing personnel has caused the Home to resort to unauthorized employment practices in an effort to maintain quality-of-care standards. In March, the Home had 68 part-time classified State employees sharing 34 authorized positions, for example, a double-filling of positions that was not compliant with the State's contract with the Vermont State Employees Association. The Home also had vacant positions, due to difficulties recruiting full-time employees, and had recently relied on a large number of contracted workers. **The Home's management had repeatedly requested both more staff and more authorized positions.**

We did not determine the Home's actual staffing needs, but we did find that the Home has an insufficient number of authorized positions to allow compliance with Department of Personnel's one-employee-per-position policy without significantly curtailing services.

We recommend that the Agency conduct a thorough review of the Home's staffing needs to ensure the quality of care required for the resident population. An adequate number of positions should then be requested from the Legislature to accommodate the staff necessary to meet the needs of the residents.

I. **Purpose**

The Office of the State Auditor (the Office) has conducted a review of the Vermont Veterans' Home (the Home). The purpose of this review was to assist the Home in its responsibility to provide care and support to its residents, thereby promoting the maintenance and enhancement of each resident's quality of life.

This review was initiated as a result of substantial concerns raised about the management and staffing of the Home, particularly as they relate to the quality of care. These issues also were raised as a result of the Division of Licensing and Protection's surveys at the Home in November 1998 and January 1999. The Office also received requests from legislators and concerned citizens to review recent events at the Home.

II. **Authority**

This review was conducted pursuant to the State Auditor's authority contained in 32 V.S.A. §§ 163 and 167, and was performed in accordance with the U.S. General Accounting Office's Government Auditing Standards as part of the State Auditor's annual audit of the State's General Purpose Financial Statements and its Federal Assistance Programs.

III. **Scope and Methodology**

The scope of this review included gaining an understanding of the internal control systems in place at the Home as well as performing tests of compliance with selected Federal and State statutes and regulations pertaining to the Home.

A review differs substantially from an audit conducted in accordance with applicable professional standards, in that the purpose of an audit is to express an opinion. The purpose of this review is to identify findings and make recommendations on the Home's internal controls and compliance so that the Home can better accomplish its mission and more fully comply with laws and regulations. If an audit had been performed, the findings and recommendations might have differed.

Our methodology included a review of relevant State statutes, public acts and Opinions of the Attorney General regarding organization and administration of the Home. In addition, we reviewed information gathered from the Home, the Agency of Administration, and the Agency of Human Services that pertained to the Home's managerial, financial, accounting, and staffing practices, quality of services provided, and actions of the Home's Board of Trustees (the Board). We also reviewed work papers of the Home's accounting firm, Kittell, Branagan and Sargent. We visited the Home on five occasions. We toured the facility and the Commandant's living quarters, and met with and interviewed selected residents, members of the Home's staff, and temporary managers of the Home. We also met with and interviewed former staff members of the Home, the former Commandant and the current President of the Board.

IV. Overview

Vermont Veterans' Home, the only veterans' home in Vermont, is one of approximately 90 state-owned homes for veterans operating throughout the country. Founded more than a century ago, it is located in Bennington.

The Home is a State institution, and the Home's Commandant (chief executive) and all staff members are State employees. The Home's \$10 million operating budget is included in the Agency of Human Services' portion of the State's General Purpose Financial Statements, and the Legislature has regularly appropriated money for the Home over the years, including \$1 million in general funds for Fiscal Year 1999. What visitors to the Home see when they approach the facility – the buildings themselves – were paid for, in part, with \$7 million in capital construction funds appropriated by the Legislature since 1965.

Nevertheless, the Home functions in many ways as if it were independent of the State. During the controversy over the recent quality-of-care issues, an often-voiced fear by some supporters of the Home was that "the State wants to take it over."

It is easy to understand how people who have been involved with the Home for many years could be unaware that it is a State institution. Significant sums of money were routinely collected, invested, managed and spent by the Home and the Board without the legally required authorization of the State Treasurer. These accounts were "off the books" from the State's point of view, and the assets they contain were not included in the State's General Purpose Financial Statements. Gifts of more than \$1,000 have been accepted without the legally required approval of the Governor, the Joint Fiscal Committee or the Legislature. Popular understanding may be further confused by the singular fact that the Board has, upon occasion, actually sold land to the State and privately invested the proceeds. More recently, the confusion about the Home's status may have been reinforced when the Agency of Human Services recommended that the Federal government fine the Home for non-compliance with quality of care standards.

The underlying problem can be attributed in part to the failure to implement statutes and in part to a tradition of autonomy that is highly unusual for a State institution.

The 1884 legislation that created the Board of Trustees (the Board), for example, indicated that the Board runs the Home.

More recently, the 1970 legislation that created the Agency of Human Services (the Agency), however, transferred the Board's duties and responsibilities to the Secretary of Human Services, redefined the Board's role as advisory to the Secretary, and attached the Home to the Agency for administrative support.

In practice, the Agency has had little or no role in managing the Home, and the Board, which meets infrequently, has had only a limited role. As a result, the Commandant has operated with a level of autonomy that is unusual for the manager of a State institution.

For example, although the Commandant supervised more than 200 State employees, he was not himself supervised by anyone within the Administration's chain of command.

Further, although the State employees at the Home are directly responsible for the health and well being of a large and vulnerable resident population, they fulfill their responsibilities in the name of the State without the operational or administrative oversight of the Agency of Human Services. By analogy, this is somewhat like the warden of a large correctional facility reporting to an independent board instead of to the Corrections Commissioner.

In fact, the current arrangement has not worked well. Communications among the Board, the Commandant, the Agency of Administration (Administration) and the Legislature have been marked by frustration and misunderstanding. Staff shortages have occurred, finances have been improperly handled, and quality of care has suffered.

V. **Background**

Status as a State Institution

Legislation was adopted in 1884 to set up what was then called the Soldier's Home and to establish its Board of Trustees. The Legislature made an appropriation of \$10,000 at that time and each Legislature since that time has appropriated money to the Home in varying amounts. For Fiscal Year 2000, the Home's general fund appropriation is \$1,048,169, representing approximately 10 percent of its annual budget.

The status of the Home as a State institution was the subject of an Attorney General's Opinion (the Opinion) in 1963. In responding to a question related to payment of motor vehicle registration fees, the Attorney General's Office researched the sometimes-confusing history of the Home as it relates to State government.

"This question has been raised frequently in regard to many different factual situations," the Opinion notes. "It has resulted in opinions which have not always completely meshed with each other."

"The ultimate question," the Opinion says, "is not what the Home may have been at the time of its creation, but what it now is in light of legislative changes from 1884 to the present time."

The Opinion identifies numerous changes affecting the Home over the years, including:

1888 Allowing the State to accept Federal funds available only to State or territorial homes that were under the exclusive control of the respective State or territory.

1912 Appropriating \$6,500 annually to be

disbursed by the Board for the care of indigent veterans who were unable to obtain the benefits of the Home.

1919 Taking away from the Trustees the power to fill Board vacancies and giving the power of appointment to the Governor.

1919 Creating a Board of Visitors whose duty it was to inspect various State institutions, including the Home. This same act also allowed the Home to have the purchasing agent of the State purchase its supplies.

1955 Appropriating \$232,746 to the Home for the biennium and subtracting estimated receipts from the Home in the amount of \$97,946. The Opinion notes that this "certainly indicates that the receipts are State property which are being subtracted from the total appropriation so that the estimated receipts can be used directly by the Home."

The Opinion also comments on the status of the employees of the Home:

"At the present time, all employees at the Home are paid directly by the State of Vermont. All employees are classified under the State personnel system with the exception of the commandant, secretary to the commandant and assistant to the commandant. These three positions are excluded from the classified

system under the provisions of Title 2 V.S.A. 306. That statute excepts from the classified system department heads, one assistant or deputy and one private secretary. Once again, we can see the Home was considered a department of the State when these three positions were excluded from the classified system."

The Opinion concludes:

"... it is rather clear that there has been a steady transition in regard to the Soldier's Home from the time it was established in 1884. It does not appear to be important to determine the exact time the Home became a State institution. It is our opinion that it is now a State institution."

Seven years after the Attorney General's 1963 Opinion, legislation was passed that created the Agency of Human Services. This statute changed the authority of the Board, making the Board advisory to the Secretary of Human Services and vesting in the Secretary the powers and duties, including administrative, policy and regulatory functions, that formerly belonged to the Board. Although this statute says that these powers and duties "shall... be exercised by" the Secretary, in practice the law was not implemented.

The legislation attached the Home to the new Agency for administrative support, required that this support be provided by the Agency and be used by the Home, and defined it as including personnel administration, coordination of financing and accounting, and provision of facilities, office space and equipment. In practice, this law also was not implemented.

Buildings and Facilities

The Home is situated several blocks north of the intersection of U.S. 7 and Vermont 9 in Bennington. It is an expansive, 208-bed, multi-winged Medicaid and Medicare health care facility that provides a range of long-term care services to eligible veterans and their family members.

When the Home was established in the late 1880s, the property consisted of approximately 200 acres with a two-story, 11-room country mansion capable of accommodating 25 soldiers. There also was a farmer's cottage, a herdsman's cottage, and various farm buildings including several barns, a chicken coop, two garages, a workshop and storage sheds.

By the end of its first six months of operation in 1887, the Home's resident population had reached 50 veterans and the Vermont General Assembly

appropriated funds for the construction of a three-story barracks to the rear of the house.

In 1890 a chapel and a hospital with accommodations for 16 beds were built.

In May of 1896, with 92 Civil War Veterans residing at the Home, the Board voted to enlarge the barracks. This would be the last major construction for more than half a century.

In the early 1960s, a trend toward providing long-term nursing care versus residential, domiciliary care began to emerge. In 1967, Federal matching funds became available for construction of additional nursing-home-care beds. Since that time, the Home has added separate wings, a 200-seat dining room, and has renovated the second and third floors of the administration building. These construction projects and other renovations, improvements and upgrades to the facility and its property were financed in part with more than \$7 million in State funds.

The barracks buildings were demolished in 1975 to make way for additions to the main facility. The cottages were torn down in 1986 to allow for the construction of further additions. Two barns, two garages and a few sheds are still standing.

Today, the Home shares its space with a U.S. Department of Veteran Affairs (VA) community-based outpatient clinic. This clinic provides VA-sponsored physician services to eligible veterans in the area, thereby saving them unnecessary trips to VA facilities in White River Junction or Albany, New York. At the time of our site visit, the clinic was open five days a week and served an average of eight patients each day. Plans called for expansion of the clinic to increase the level of services provided and serve a greater number of area veterans.

The maintenance staff of the Home performs all minor repairs, maintenance, and custodial work for the Home. This arrangement is in contrast to the norm for State facilities, most of which are supervised by the Department of Buildings and General Services.

Land Surrounding the Home

In 1886, the Board accepted donation of approximately 200 acres that had served as a summer home for a prominent businessman. For three-quarters of a century, the Home operated this property as a working farm, supplying its residents with animal and vegetable products. In 1960, however, the farming activity by the Home ceased when it no longer proved cost effective. Some of the land continues to be worked today through a lease to a local farmer.

Over time, the Home has sold or leased various parcels of the property:

1. A parcel was sold to Mount Anthony Union High School in 1965.
2. A second parcel was leased to the school in 1995 for use as a practice area for field sports.
3. Additional acreage was lost in 1973 for the reconstruction of U.S. 7 north of the Home.
4. In 1977, a portion of the property was sold to the State for an office building, as was a parcel in 1991, when the State decided to expand the building.
5. In 1977, a portion was leased to the Greater Bennington Chamber of Commerce for an office building.
6. The Vermont Veterans' Home War Memorial Cemetery, where more than 300 Vermont veterans are buried, occupies 17 acres of the Home's property.

The buildings that comprise the Home today contain approximately 118,000 square feet of floor space and are situated on the remainder of the original land, approximately 87 acres.

Resident Profiles

As of April 1999, the Home reported having provided services to an unduplicated count of 3,222 individuals since the time of its inception in 1884. Vermont veterans have priority in being admitted to the Home, but to be eligible, all veterans must have served at least 90 days of active duty in the United States military and have been honorably discharged. Spouses of eligible veterans and parents of deceased veterans also are eligible for admittance to the Home.

Residents of the Home have included veterans of the Civil War, Spanish American War, World War I, World War II, Korean War, and Vietnam War. Table I lists the state of residence at time of admission for current residents of the Home.

**Table I
State of Origin
Residents of Vermont Veterans' Home***

State of Origin	Number
Vermont	125
New York	26
Massachusetts	6
New Hampshire	5

Connecticut	2
Rhode Island	1
New Jersey	1
North Carolina	1
Florida	1
Indiana	1
Texas	1
Washington	1
Total	171

*Vermont Veterans' Home, April 20, 1999

Approximately 57 percent of the current residents are veterans of World War II, 18 percent are veterans of the Korean War and 3 percent are veterans of the Vietnam War. Spouses of veterans represent 13 percent of the Home's current residents, and the total population consists of 148 men and 23 women.

Of the current residents, approximately half served with the U.S. Army, 20 percent served with the U.S. Navy, 10 percent served with the U.S. Air Force, 2 percent with the U.S. Marines, and 1 percent with the U.S. Coast Guard. Several residents have served in more than one branch of military service and one resident served as a Merchant Marine.

Table II lists the county of residence at time of admission for those residents from Vermont.

Table II
County of Origin
For Vermont Residents of the Home*

County of Residence	Number of Residents	Percent of All Vermont Residents
Addison	4	3
Bennington	51	41
Caledonia	0	0

Chittenden	10	8
Essex	0	0
Franklin	4	3
Grand Isle	1	1
Lamoille	1	1
Orange	3	2
Orleans	0	0
Rutland	22	18
Washington	8	6
Windham	16	13
Windsor	5	4
Total	125	100

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Staffing and Positions

The issue of staffing and position levels at the Home has been a source of considerable misunderstanding in recent years and is the subject of a finding in this report.

Simply put, there has been no arithmetical relationship between the number of authorized staff positions at the Home and the actual number of persons working. In fact, many positions were vacant, many single positions were held by two people, and many people were working on contracts, without authorized positions.

In considering the findings in this report, it is important to bear in mind certain facts:

1. The Home had 186 authorized classified positions in November 1998.
2. Because of staff turnover and other factors including market conditions, 14 of these positions were vacant and the remaining 172 were filled.
3. Some classified employees at the Home shared positions, referred to as "double-filled" positions.
4. The Home had 204 classified employees occupying the 172 filled positions (32 of them "double filled") in November 1998, plus an additional 21 persons performing personal service contract work, 19 of them under a contract with Adecco Employment Services.
5. While Adecco Employment Services is sometimes called a "temporary" employment service, these 19 workers were not what the Department of Personnel defined as "temporary" workers. Rather they met the definition of "personal service contract" workers. This difference in terminology sometimes resulted in misunderstandings.
6. Because each position in State government has a designated job description, the Home could not shift a vacant position between nursing and dietary, for example, without having the position reclassified by the Department of Personnel.

In short, at any given time, the Home could theoretically have had an adequate number of staff and still have had an inadequate number of positions.

Staffing, of course, is much more important than position levels, both to the issue of quality of care and to questions about efficiency of management. Nevertheless, a lack of positions sufficient to accommodate staff is a significant compliance and control issue related to Administration policy and the State's contractual obligations to its employees.

The distinction between the number of positions authorized for the Home and the number of staff actually working at the Home is important. Some of the misunderstanding that has characterized the Home's dealings with the Dean

Administration can be attributed to discussions in which the distinction between position levels and staff levels were not clearly understood or acknowledged by the parties involved.

VI. Recent Developments

The events recounted below are related to the governance, management and financial problems that led to this review. They are important in that they point out the fundamental areas that must be addressed in order for the Home to be successful in providing quality services to its residents. They also serve as a context for the findings and recommendations contained in this review.

1998

In a January 14, 1998, letter to the Governor, the President of the Board requested assistance related to an "impasse on the appropriations needed to properly operate the Home." The letter followed unsuccessful efforts by the Home to win the Administration's approval of its FY1999 budget requests.

On February 3, the Governor responded that the Agency of Administration had already directed "a State team comprised of individuals from the Office of Rate Setting, and the Departments of Aging and Disabilities, Personnel, and Finance and Management to evaluate the status and operations of the Veterans Home."

Thirteen days later, the Vermont Veterans Home Evaluation Team (the Team) filed its report with the Secretary of Administration, outlining several recommendations related to governance, fiscal, and management concerns at the Home. These recommendations included:

1. Having the Agency of Administration begin limiting the funds available to the Home, allocating the money in monthly portions to lessen the likelihood of a deficit at the end of the fiscal year.
2. Having the Home begin using administrative support provided by the Agency of Human Services.
3. Having the Agency of Administration arrange for an independent and comprehensive review of the role of the Home within State government, including governance and management issues at the Home.
4. Having Buildings and General Services conduct an evaluation of the Home's facility and maintenance practices and make recommendations for efficiencies.

Soon after receiving the Team's recommendations, the Secretary of Administration placed several restrictions on the Home. These restrictions included allotting funds on a monthly basis, freezing the filling or reclassification

of staff positions, freezing personal service contracts, suspending out-of-state travel by staff, and suspending major equipment purchases.

The recommendation regarding the Home's use of administrative support provided by the Agency of Human Services (repeated as a recommendation in this report) was not implemented. As noted below, however, the Agency asserted its authority a year later, in March of 1999, by installing a temporary manager under contract at the Home, "with the authority to hire, terminate, or reassign staff, obligate facility funds, alter facility procedure... manage the facilities to correct deficiencies identified in the facilities operations... [and] provide supervision to the Veteran's Home Commandant."

Following another of the Team's 1998 recommendations, the Agency of Human Services (the Agency) contracted with Vencor, Inc. on March 30, 1998, to provide a management assessment of the Home.

Vencor's report, dated May 6, 1998, outlines a number of recommendations that include:

1. Developing a marketing plan and recruiting patients who can pay for services.
2. Adjusting nursing staff levels to be more in line with those of comparable facilities.
3. Reviewing the State's contract with the Vermont State Employees' Association (VSEA) for inefficient work rules and excessive wage rates.
4. Closing the domiciliary (residential care unit) or marketing it to paying customers.

Many of the recommendations focus either on reducing costs or on generating increased revenues. However, some of the recommendations conflict with the Home's policy of giving admissions preference to veterans who are Vermonters, with the State's contract obligations to the VSEA, or with the Home's practice of providing services to eligible veterans regardless of their ability to pay. While the report comments on staffing levels, it does not address the number of authorized positions.

The Vencor report also does not address the role of the Home within State government or the governance structure of the Home, topics the Team had recommended for study.

The Team's recommended evaluation by Buildings and General Services was not done.

Between November 16 - 18, 1998, the Agency of Human Services' Division of Licensing and Protection, which licenses the Home and similar institutions in the State, conducted a survey at the Home that found "isolated deficiencies" in the

quality of care. The Home was given until January 7, 1999, to achieve substantial compliance with State and Federal regulations related to the deficient areas.

1999

Agency surveyors conducted a follow-up visit and investigation of new complaints between January 26-28, 1999. The surveyors reported that the Home had not achieved substantial compliance, that there were new deficiencies, and that "a pattern of deficiencies," had been found.

In early February, the Federal Health Care Financing Administration, following the Agency's recommendations, imposed a number of conditions for the Home's continued participation in Medicaid and Medicare programs. These conditions included:

1. The requirement that the Home achieve substantial compliance with State and Federal regulations related to the deficient areas by May 18, 1999, or face termination of the Home's Medicaid provider agreement.
2. The requirement that the Home pay a civil penalty of \$750 for each day that the Home was not in substantial compliance.
3. The denial of payments to the Home for new admissions (in effect, freezing new admissions), effective February 28, 1999.
4. The requirement that the Home comply with a directed plan of deficiency correction.
5. The requirement that temporary managers, selected by the Agency, be installed at the Home.

At a meeting of the Board of Trustees held on March 1, 1999, the incumbent Commandant resigned from his position. The deputy Commandant resigned on March 9.

On March 16, 1999, the Agency contracted with Subacute Management Corporation of America Inc., to serve as temporary manager of the Home. As noted above, Subacute was given authority by contract "to hire, terminate, or reassign staff, obligate facility funds, alter facility procedure... manage the facilities" and supervise the Commandant.

Agency surveyors visited the Home again on April 27 and 28, 1999, to conduct a follow-up survey. They reported finding the Home to be in substantial compliance in all areas found to be deficient in November 1998 and January 1999. The ban on new admissions imposed following the January survey, however, remained in effect.

Since the April 30, 1999, completion of the fieldwork for this review, a new Commandant has been hired. Under the terms of the Subacute contract, he will be supervised by Subacute until March 8, 2000.

vii. Internal Control Findings and Recommendations

Finding 1:

Neither the Home nor the Agency of Human Services had an internal control process adequate to provide reasonable assurance that financial activities at the Home were properly processed, recorded and reported, and that the Home complied with applicable laws, rules and Administration policies. This lack of internal control limited management's ability to cope with significant financial, personnel and quality-of-care problems.

Discussion:

Internal control consists of five interrelated components including control environment, risk assessment, control activities, information and communication, and monitoring. The findings contained in this review demonstrate that the Home had an inadequate system of internal controls.

1. **Control Environment** sets the tone of the organization, influencing the control consciousness of its people. Evidence of inadequate internal control processes for this component include the following findings:
 - A. Little or no control over the financial and other operations of the Home was exercised by the Board of Trustees or the Agency of Human Services. The Board met infrequently (see details under Finding 2, below), the Agency provided little administrative support to the Home (see details under Finding 3, below), and few of the administrative, policy-making and regulatory powers and duties that the law assigns to the Secretary were exercised (see details under Finding 2, below).
 - B. The Home contracted for legal, information technology, and temporary employment services without following procedures or obtaining approvals required by law and Administration policy (see details under Findings 7b, 7c, and 7d, below).

- C. The Board and the Home maintained private bank accounts and managed hundreds of thousands of dollars without the authorization of the State Treasurer that is required by law (see details under Findings 5a, 5b, and 5c, below). Expenditures from these accounts were not properly processed, and the funds contained in the accounts were not reported in the State's General Purpose Financial Statements.
- D. The Home's contract for its annual independent audit did not require important internal control and compliance work that might have identified significant problems. Had the audit contract been submitted to the State Auditor for approval, as required by law, such work would have been required (see details under Finding 7a, below).
- E. The Home's annual independent audit report was not circulated to the Legislature, the Governor and the public, and the opportunity for important independent review was denied as a consequence. Had the audit report been addressed to the State Auditor, as required by law, the report would have been so circulated (see details under Finding 7a, below).

2. **Risk Assessment** is the entity's identification and analysis of relevant risks to achievement of its objectives. The following findings identify areas where the Home and the Agency of Human Services failed to identify and analyze potential risk:

- A. The Agency of Human Services, required by law to provide administrative support to the Home, provided little or no operational control over State employees providing care to a large and vulnerable population (see details under Finding 3, below).
- B. The Board and the Home failed to observe the State Treasurer's guidelines

for maintaining bank accounts, with the result that the accounts had insufficient insurance or collateral (see details under Findings 5a, 5b, and 5c, below).

- C. The Home's management staff did not have access to important official records, with the result that it could not determine, for example, whether donated funds were being expended in compliance with the terms under which they were donated (see details under Finding 10, below).

- 3. **Control Activities** are the policies and procedures that help ensure that management directives are carried out. Findings related to this internal control component include:

- A. The Home's policy on the handling of cash allowed one person to sort mail, deposit funds, post deposits to ledger accounts, and sign checks written to himself or herself (see details under Finding 5b, below). This failure to segregate duties resulted in a serious lack of internal control.
- B. As noted above, the Home did not have a policy or retention schedule for official records, nor did the Home's management staff have access to certain important documents necessary to ensure that management directives were carried out (see details under Finding 10, below).

- 4. **Information and Communication** include the identification, capture and exchange of information in a form and time frame that enable people to carry out their responsibilities. Findings that document a breakdown in the information and communication processes include:

- A. As noted above, the Home's annual independent audit report was not circulated to the Legislature, the Governor and the public, and the opportunity for important independent review was denied as a consequence. Had the audit report been addressed to

the State Auditor, as required by law, the results would have been circulated (see details under Finding 7a, below).

- B. The Home's practice of understating the acuity level of the residents resulted in reimbursement rates that were lower than what would have been due the Home had the acuity levels been accurately documented. This practice may have adversely impacted the quality of care being provided, as the acuity levels of the residents influence staffing and other operational decisions made by the Home.

5. **Monitoring** is a process that assesses the quality of internal control performance over time. Failure to implement adequate monitoring processes are evidenced by the following findings:

- A. As noted above, the Agency of Human Services, required by law to provide administrative support to the Home, provided little or no such support (see details under Finding 3, below).
- B. As noted above, the Home's contract for its annual independent audit did not require important internal control and compliance work that might have identified significant problems. Had the audit contract been submitted to the State Auditor for approval, as required by law, the work would have been required (see details under Finding 7a, below).

Recommendation 1:

The Agency of Human Services should develop and implement internal control procedures to provide reasonable assurance that financial activities at the Home are properly processed, recorded and reported, and that the Home complies with applicable laws, rules and Administration policies.

VIII. Compliance Findings and Recommendations

Finding 2:

The 1970 statute that transferred the Board's administrative, policy-making and regulatory functions to the Secretary of Human Services has not been implemented. The Board has continued to exercise these powers and duties inadequately and without authority. This noncompliance has deprived the Home of necessary guidance and support at a time of serious financial, staffing, and quality-of-care problems.

Discussion:

The 1970 law creating the Agency of Human Services (effective in 1971), transferred the administrative, policy-making and regulatory functions of the Board to the Secretary of the Agency of Human Services and redefined the role of the Board as advisory to the Secretary of the Agency of Human Services. The wording is as follows:

"3 V.S.A. § 3002. CREATION OF AGENCY

a. An agency of human services is created...

(b) The following units are attached to the agency for administrative support:

(1) Vermont soldiers home..."

"3 V.S.A. § 3003. ADVISORY CAPACITY

(a) All boards and commissions which under this chapter are... attached to the agency shall be advisory only... and the powers and duties of the boards and commissions, including administrative, policy making and regulatory functions, shall vest in and be exercised by the secretary of the agency."

This law has not been observed in practice, nor has the Board exercised sufficient operational supervision over the Home. According to its by-laws, the

Board is required to meet only three times a year, and a review of Board minutes indicates that it met the minimum number of times each year in 1997 and 1998.

The Board President observed that, in his five years as a Board member, the Board has "never had a handle on the financial operations of the Home" and has operated "only in a perfunctory role."

An Agency spokesperson noted that the Agency has viewed the Board as having the authority to "determine what administrative functions it wishes to perform for itself."

This noncompliance with the law has resulted in a lack of oversight and supervision at a time of serious financial, staffing, and quality of care problems at the Home.

Recommendation 2:

The Agency of Human Services should provide the Home with the support and guidance required by law. The Board and the Secretary should establish a working relationship that will afford the Secretary the benefit of the Board's advice in guiding the management of the Home.

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Finding 3:

Neither the Home nor the Agency of Human Services has complied with the statutory requirements that the Agency shall provide the Home with administrative services and that the Home shall use them. This noncompliance has deprived the Home of necessary guidance and support at a time of serious financial, staffing, and quality-of-care problems.

Discussion:

The legislation that created the Agency of Human Services, adopted in 1970 and effective in 1971, attached the Home to the Agency for administrative support.

According to 3 V.S.A. § 3002 (c), "Units attached to the agency for administrative support shall receive, and shall use, the services provided by the administrative services division of the agency under section 3086 of this title." (Emphasis added.)

Section 3086(b) enumerates the support services and requires the Agency to make them available:

"the administrative services division shall provide the following services to the agency and all its components, including components assigned to it for administration:

1. Personnel administration;
2. Coordination of financing and accounting activities;
3. Coordination of filing and records maintenance activities;
4. Provision of facilities, office space, and equipment and the care thereof;
5. Requisitioning from the department of buildings and general services of the agency of administration, of supplies, equipment and other requirements;
6. Management improvement services; and
7. Other administrative functions assigned to it by the secretary." (Emphasis added.)

This law has not been implemented and the parties responsible for implementing it apparently were unaware of their responsibility.

The Home did not use the Agency's administrative support and the President of the Board of Trustees was unaware of any relationship between the Home and the Agency.

In response to an inquiry from our office, an Agency spokesperson indicated that the Agency has traditionally provided assistance to the Home only upon request. The Agency, he wrote, has viewed the Home as "an institution that has its own administrative capacity and staffing... governed by a Board of Trustees, who determine what administrative functions it wishes to perform for itself."

The Agency's failure to provide and the Home's failure to use the administrative support set out by law has resulted in a lack of oversight and supervision of the Home's management functions at a time of serious financial, staffing, and quality-of-care problems at the Home.

Administrative support by the Agency should include the Home's being represented by the Agency in all matters involving other State agencies and departments such as the departments of Personnel, Building and General Services and Finance and Management. The Home should be included in the Agency's organizational chart and annual budget submission. The Agency's

Director of Administrative Services should coordinate all testimony before the General Assembly regarding the Home's budgetary and program issues.

Recommendation 3:

The Agency of Human Services should immediately begin providing, and the Home should immediately begin using, the administrative support that is set out and required by law. Administrative functions should be consolidated where use of Agency support makes consolidation feasible.

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Finding 4:

The Home has an insufficient number of classified positions to allow compliance with Department of Personnel policy at current staffing levels. A local shortage of available, full-time nursing personnel has caused the Home to resort to unauthorized employment practices in an effort to maintain quality-of-care standards. The non-compliant employment practices have fostered misunderstanding and miscommunications among the Home management, the Board, the Dean Administration and the Legislature at a time of serious financial, staffing, and quality-of-care problems.

Discussion:

Under the practices established by the Department of Personnel (Personnel), each authorized position in State government is normally occupied by one employee. Personnel assigns each position a job title, a numerical identity, a written job description and an approved pay grade level. In some situations, with the approval of the Commissioner of Personnel, management may authorize two employees who wish to work part time to hold a single authorized position. This is called a "job-share" arrangement and is authorized by the State's negotiated contract with the Vermont State Employees' Association (VSEA).

As of March 29, 1999, the Home had 186 classified positions, 18 of which were vacant and 168 of which were filled. Of the 168 filled positions, 34 were what have been called "double-filled" positions, each shared by two part-time employees. That means there were 134 classified employees in 134 regular positions and 68 classified employees in 34 double-filled positions, for a total of 202 classified employees in all.

The double-filled positions differed from typical job-share positions in that the employees sharing the double-filled positions often worked more than half-time and sometimes worked on different assignments.

The Home was notified by Personnel in November 1998 that the "double-filled" positions (there were 32 at the time) did not meet the requirements for "job-sharing" under the VSEA contract, that the arrangements were unauthorized, and that "corrective action" should be taken immediately to bring the Home into compliance.

The Home responded by submitting a request for 68 new positions, pursuant to a Position Management Plan outlined by the Secretary of Administration in the FY 2000 Budget Instructions.

Fifteen of the new positions requested would have been for additional staff, 21 would have accommodated existing employees working on personal services contracts and 32 would have eliminated the "double-filled" problem. In other words, the addition of 53 of the requested 68 new positions would not have resulted in additional staff, but rather would have maintained current staff levels while bringing the Home into compliance with the Administration's policy of having an authorized position for each employee. This compliance, in fact, was a stated purpose of the Administration's Position Management Plan.

At the time of its request, the Home was experiencing the effects of two related staffing impediments: The Secretary of Administration had only recently lifted a hiring freeze imposed the previous February, and there was a shortage of available nursing-related staff in the Bennington area.

The Home's reliance on double-filled positions evolved, in part, as an attempt to attract part-time nurses when full-time nurses were unavailable. Of the 64 part-time employees double-filling positions in November 1998 for example, 42 were nurses or nursing assistants. (Four months later, there were 68 part-time employees double-filling 34 positions; 45 were nurses or nursing assistants.)

The Home's November request for new positions was denied by the Administration.

A spokesperson for the Department of Finance and Management cited the May 1998 evaluation of the Home by Vencor, Inc., as part of the evidence the Administration relied upon in determining that the additional positions were not necessary. While the Vencor report addresses staffing, however, it does not address the question of positions.

It is beyond the scope of this review to analyze the staffing needs of the Home. The evidence demonstrates, however, that the question is complex, crucial to the health and well being of the Home's residents, and deserving of close attention by the Agency of Human Services.

In adhering to 3 V.S.A. § 3086 (b), the personnel unit of the Agency's Administrative Services Division should coordinate this review, giving consideration to:

1. Industry standards reflected in other veterans homes operating throughout the country that are of similar size and corporate structure.
2. Availability of qualified applicants willing to work full-time.
3. Number of persons working part-time as they relate to the number of full time equivalents (FTEs) needed to provide quality care.

Without the allocation of additional positions, compliance with Personnel's policy on positions cannot be achieved without significantly affecting the Home's ability to function.

The fact that more than half of the 18 vacancies on March 29, 1999, were nursing-related vacancies indicates that the 45 part-time nurses and nursing assistants then on the staff were generally not available for full-time work (the ratios in November 1998 were similar).

Under these conditions, elimination of the unauthorized practice of double-filling positions without authorizing additional positions would significantly decrease the level of nursing-related staff and seriously limit the number of residents the Home could safely accommodate.

Recommendation 4:

The Agency of Human Services should immediately conduct a thorough review of the Home's staffing needs to ensure the quality of care required for the resident population. An adequate number of positions should then be requested from the Legislature to accommodate the staff necessary to meet the needs of the residents.

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Cash Accounts

Compliance Criteria

Findings 5a, 5b and 5c and Recommendation 5 relate to the maintenance of three of the Home's bank accounts that are out of compliance with State law.

Relevant Vermont law requires:

1. That the State Treasurer (the Treasurer) shall keep an accurate account of all moneys "received by the state from whatever source."

2. That each agency or department shall obtain the Treasurer's approval to establish and maintain a bank account.
3. That investment of State funds shall be made in accordance with written guidelines adopted by the Treasurer. These guidelines, in turn, require the investment priority be the safeguarding of the principal through the use of safe investments that are fully collateralized.
4. That any gift to any part of State government of less than \$1,000 shall be reported to the Secretary of Administration and to the Joint Fiscal Office, and that any gift of more than \$1,000 shall be subject to the approval of the Governor.
5. That all expenditures from enterprise funds be made pursuant to legislative appropriation, the approval of the Commissioner of Finance and Management, or the approval of the Secretary of Administration.

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The Endowment Fund

Finding 5a:

The Board maintained an endowment fund account in the amount of \$419,270 that was not authorized by the State Treasurer and was improperly managed and accounted for. Expenditures from this account were not authorized by appropriation or approved by the Administration, and available records were insufficient to allow the Board to determine if such expenditures violated the terms under which the funds were donated.

Discussion:

The Board maintained an investment account (the Endowment fund or the Endowment account), the contents of which came from various sources including a bequest, funds from the sale of land to the State, donations from the American Legion, and the balance of funds received for construction of a chapel.

As of December 31, 1998, the Treasurer had no accounting of the Endowment fund and the Board had no approval from the Treasurer for the Endowment account.

The account was not fully collateralized, as required by the Treasurer's guidelines. The Board has maintained the Endowment fund as a private investment account at the Chittenden Bank and a portion of the principal has been invested in mutual funds and stocks, which have no guarantee of safety.

The balance in the Endowment account was not reported in the State's General Purpose Financial Statements as prepared by the Department of Finance and

Management, which means that total assets were under reported in the amount of \$419,270 in FY1998.

Recent expenditures from the Endowment fund have been made with the approval of the full Board, of the chair of the finance committee or by the Commandant of the Home acting alone. These expenditures were not made pursuant to appropriation or Administration approval.

Donor-imposed restrictions on the use of the funds, if any, could not be determined because of a lack of documentation.

Our test work determined that this account is a non-expendable trust fund, meaning only generated income can be expended. The bank statements for this account in March 1999, however, show the Board spent both principal and income.

When the Commandant and deputy Commandant resigned in March 1999, for example, \$15,000 in moving expenses was paid to the Commandant out of the Endowment fund, and \$2,295 in moving expenses was paid to the deputy, as noted on the bank statement. These moving expenses were paid out of Endowment fund principal.

With respect to the acceptance of gifts, management staff at the Home could provide no documentation that the Board had followed the required approval process for accepting these or other donated funds.

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The Donated Funds Account

Finding 5b:

The Home maintained a donated funds account in the amount of \$48,885 that was not authorized by the State Treasurer and was improperly managed and accounted for. Expenditures from this account were not authorized by appropriation or approved by the Administration, and available records were insufficient to allow the Home to determine if such expenditures violated the terms under which the funds were donated.

Discussion:

The Home had an account containing donated funds (the Donated Funds account), the contents of which came from various sources including the American Legion, the Veterans of Foreign Wars, Bennington area businesses and family members of residents. The proceeds of raffles and other fund raising

activities and collections from the chapel also have been deposited into the Donated Funds account.

The Donated Funds account, which was controlled by the administrative staff of the Home, included a number of component funds:

1. An entertainment fund from canteen and store sales for various entertainment activities.
2. A chapel fund for funds raised and expenses incurred in the chapel.
3. A renovations fund for establishing overnight accommodations for visitors of residents.
4. A rooms fund for expenses of the common rooms and lounges.
5. A members' assistance fund to accommodate contributions to and expenses incurred on behalf of the residents.
6. Eight smaller funds including dental, employee recognition, equipment, unrestricted, wings, mobile clinic, and special funds.

The Donated Funds account and the Residents' account (see Finding 5c) were kept in two checking and two money market accounts at the Merchants Bank. As of the end of FY1998, the combined balances exceeded Federal Deposit Insurance Corporation coverage by \$106, 309.

As of December 31, 1998, the Treasurer had no accounting of the Donated Funds account, the Home had no approval from the Treasurer for the account, and the account was not fully collateralized, as required by the Treasurer's guidelines.

The balance in the Donated Funds account was not reported in the State's General Purpose Financial Statements as prepared by the Department of Finance and Management, which means that total assets were under reported in the amount of \$48,885 in FY1998.

Recent expenditures from the Donated Funds account were made with the approval of the Commandant. Financial practices were such that staff members at times signed checks made payable to themselves (see 3A, Control Activities, under Finding 1, in Section VII above). An individual might sort mail, deposit funds, post deposits to the ledger accounts and sign checks. Donor-imposed restrictions, if any, on the use of these funds could not be determined because of a lack of documentation.

With respect to the acceptance of gifts to this account, management could provide no documentation that it had followed the required approval process for accepting these or other donated funds.

The Residents' Account

Finding 5c:

The Home maintained a custodial account of funds belonging to certain residents in the amount of \$105,747 that was not authorized by the State Treasurer and was improperly managed and accounted for.

Discussion:

The Home maintained a custodial account of funds belonging to certain residents of the Home (the Residents' account), the contents of which were deposited on behalf of the residents for the centralized management of their personal funds.

The Residents' account was held with the Donated Funds (See Finding 5b) in separate accounts at the Merchants Bank and was controlled by the administrative staff of the Home. As of the end of FY 1998, the balance in the Merchants Bank accounts exceeded Federal Deposit Insurance Corporation coverage by \$106,309.

As of December 31, 1998, the Treasurer had no accounting of the Residents' account, the Home had no approval from the Treasurer for the Residents' account, and the account was not fully collateralized, as required by the Treasurer's guidelines.

The balance in the Residents' account was not reported in the State's General Purpose Financial Statements as prepared by the Department of Finance and Management, which means that total assets were under reported in the amount of \$105,747 in FY 1998.

An individual Account Clerk B controlled this account which means one individual might sort mail, deposit funds, post deposits to the ledger accounts and sign checks. Assigning any individual to perform these functions decreases management's internal control over asset protection and increases the possibility of fraud.

Recommendation 5:

The Agency of Human Services should establish an internal control system at the Home that will sufficiently ensure compliance with Vermont law and Administration policy with respect to the authorization, approval, and reporting requirements for bank accounts associated with the Home, with respect to expenditures from these accounts, and with respect to the acceptance of items of value on behalf of the Home.

Unauthorized Personal Services Expenses

Finding 6:

In violation of Administration policy, the Board paid more than \$17,000 in moving expenses to the departing Commandant and deputy Commandant.

Discussion:

According to Administration policy on moving expenses, an agency head can elect to pay such expenses for new employees with the written approval of the Commissioner of Personnel. The policy does not authorize moving expenses for employees who terminated voluntarily or involuntarily.

In March 1999 the Board expended \$15,000 in moving expenses for the Commandant and \$2,295 for the deputy for moving expenses after their voluntary termination.

These payments were not processed as State employee expenses, but rather were paid out of the principal of the Endowment Fund principal, without proper spending authority (See Finding 5a).

Recommendation 6:

The Agency of Human Services should enforce compliance with Administration policy with respect to payment of employee expenses at the Home.

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Compliance with Personal Services Contract Requirements

Compliance Criteria

Findings 7a, 7b, 7c and 7d and Recommendation 7 relate to personal services contracts that are not in compliance with State law or Administration policy.

Relevant Vermont law provides:

1. That all requests by a State entity for accounting or auditing services by an independent accounting firm be subject to the State Auditor's approval prior to the negotiation of any contractual obligations. In addition, state law requires that reports of all such audits be addressed and submitted to the State Auditor for distribution.

2. That the Attorney General may represent the State in all civil matters and shall appear for the State in civil causes in which the State is a party when, in his or her judgment, the interests of the State so require.

Relevant Administration policy is set out in Agency of Administration Bulletins, as follows:

1. Bulletin 3.5 establishes general policy and minimum standards for soliciting vendors of services and products outside of State government and for processing the related contracts. Contracts greater than certain set thresholds require the approval of the Secretary of Administration before the contract can be executed.
2. Bulletin 3.5 also requires that the Chief Information Officer (CIO) be consulted for any contract relating to information technology services.
3. Bulletin 1.5 requires that all agencies and their subdivisions conform to the policies of the Information Resource Management Advisory Committee (IRMAC). IRMAC policy, in turn, requires that all Requests for Proposals related to information technology be reviewed and approved by the CIO.

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Unauthorized Auditing Services

Finding 7a:

The Home failed to comply with Vermont law regarding a contract for auditing services, with the result that the contract failed to include crucial internal control and compliance work that might have identified significant problems.

Discussion:

On July 27, 1998, the Home contracted with a private accounting firm for auditing services. Neither the RFP nor this contract, for up to \$15,000, were submitted to the State Auditor for approval.

The annual financial audit of the Home performed under the contract did not address internal control and compliance issues related to the Home and to the State, nor did the RFP require such work. The State Auditor, following the U.S. General Accounting Office's Government Auditing Standards, would have required such work.

The report of the audit was not circulated to the Legislature, the Governor and the public, and the opportunity for important independent review was denied as a consequence. Had the audit report been addressed to the State Auditor, as

required by law, the report would have been distributed to the Legislature, the Governor and the general public, as the law directs.

Unauthorized Legal Services

Finding 7b:

The Home contracted with an attorney who represented the State in a court action without the approval of the Attorney General's Office, thereby failing to comply with Vermont law that allows the Attorney General the option of representing the State in such matters.

Discussion:

On July 1, 1998, the Home entered into a one-year, \$9,500 legal services contract with a Bennington attorney.

While the contract specified that the services contracted for would "be limited to those not under the purview of the Attorney General's Office," in fact the services were not so limited.

For example, in a court filing on October 13, 1997, and in other actions and written communications, the attorney represented the State without the knowledge or approval of the Attorney General's Office.

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Unauthorized Information Technology Services

Finding 7c:

The Home failed to comply with Administration policy regarding a contract for information technology services.

Discussion:

On July 9, 1998, the Home contracted with a private company for computer management services. This contract was executed without the required consultation with the Chief Information Officer.

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Unauthorized Temporary Employment Services

Finding 7d:

The Home failed to comply with Administration policy regarding a contract for temporary staff services.

Discussion:

From July 5, 1998 to January 31, 1999, the Home employed as many as 19 temporary workers under a contract with a private employment company that was not approved by the Secretary of Administration. The company was paid \$181,259 under the contract. The Secretary approved the contract retroactively on March 12, 1999.

Recommendation 7:

The Agency of Human Services should ensure compliance with Vermont law and Agency of Administration bulletins in all contracts by or on behalf of the Home.

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Aging Accounts Receivable, Credit Memos

Finding 8:

The Home failed to collect outstanding debts due to the Home. The Allowance for Doubtful Accounts on the Home's books did not reflect a realistic amount reasonably expected to be written off, with the result that the Home's report of assets was inflated and its operating costs were understated. By not returning overpayments, the Home accumulated a significant balance of old credit memos that caused funds to be withheld from their rightful owners and also caused the Home's receivables to be under reported.

Discussion:

Uncollected revenues due to the Home for services rendered were tracked using an aged accounts receivable listing. In management letters submitted with recent audits by its contracted accounting firm, the Home was encouraged to clean up the outstanding receivables. This recommendation has appeared in the past two annual audits.

In fact, the Home recently has been falling behind on collections.

On June 30, 1998, \$153,147 of the aged accounts receivable (13.6 percent of the total) were more than 120 days old.

Nine months later, on March 31, 1999, the balance older than 120 days had more than doubled, to \$313,186.

The Home's accounts receivable should be collected in a reasonable time to safeguard the assets of the State and to prevent potential loss. Sound accounting practices require that the allowance for doubtful accounts reflect an amount that is reasonably expected to account for potential losses.

Because the State appropriates spending authority on a cash basis and assumes non-State funds will be collected and deposited into the associated receipt account, the need to collect the revenues due the State is important. For funds that are paid to the Home on a reimbursement basis, such as Medicaid funds, spending is permitted in anticipation of receiving these funds. A failure to recover such funds can leave the Home in a cash-deficit position at the end of the fiscal year.

As of June 30, 1998, the Allowance for Doubtful Accounts on the Home's books was set at \$15,000, which is not a reasonable figure based on \$1.1 million of outstanding receivables and the current age of the accounts receivable.

The effect of understating the allowance for doubtful accounts is an artificial inflation of assets in the Home's financial statements and an inaccurate presentation of the operating costs associated with the Home.

With respect to credit memos, the Home should apply overpayments to balances owed or coming due, issue a check to the person or estate of a person who overpaid, or issue a check to the State Treasurer's Abandoned Property Division. As of March 31, 1999, the Home's credit memos totaled \$66,815.

Since credit memos are posted with accounts receivable debts, by allowing outstanding credit memos to remain on the books, the Home causes an understatement of accounts receivable for financial reporting purposes.

Recommendation 8:

The Agency of Human Services should ensure that the Home's receivables are reviewed, pursued and either collected or written off. The Allowance for Doubtful Accounts on the Home's books should be adjusted to reflect a realistic estimate. The Home should apply credit memos to current billings, reimburse the payees, or transfer the funds to the State Treasurer.

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Special Fund Assessment

Finding 9:

The Administration incorrectly assessed the Home's Medicaid receipts as special funds and mistakenly transferred more than \$100,000 from the Home to the General Fund.

Discussion:

In FY 1997 and 1998, the legislatively authorized annual assessment of special funds has been applied to the Home's revenues, with the result that a total of \$211,939 has been transferred to the State's general fund. Approximately one-half, or \$105,916, of this amount, however, has been taken from the Home's Medicaid funds. These Federal funds were identified as special funds in the State's Financial Management Information System for reasons having to do with the limitations of the computer system, but they were not, in fact, special funds and were not properly subject to the assessment.

Recommendation 9:

The Agency of Administration should not apply the special fund assessment to the Home's Medicaid funds.

Record Keeping

Finding 10:

The Home does not have a policy or established retention schedules for safeguarding, storing and retrieving its official records, including those necessary for internal controls and compliance.

Discussion:

Official records for all State entities must be safeguarded and preserved for future use according to established retention schedules. By law, each department or agency must develop a schedule for retention and disposition of all official records in its custody. In most cases, older records that need to be kept available are stored at the Department of Buildings and General Services' Division of Public Records. Such procedures allow for indexing and accessibility of needed documents.

The Home does not have a policy or schedule for record retention.

The inability of management to locate source documents relating to donations to the Endowment fund, to cite just one resulting problem, made it impossible to determine if these funds were being handled and disbursed in compliance with the terms under which they were donated.

In addition, some of the Home's earliest records, including admission log books from the late 1800s, have been stored in an old safe in the administrative offices. These are historically valuable State assets and should be properly indexed and preserved.

Recommendation 10:

The Agency of Human Services should assist the Home in developing a public documents retention and disposition schedule. The Home should seek and follow the advice of the State Archivist in preserving records of archival value. The Home should locate the source documents for all donated funds. As records are located, they should be properly filed to allow easy retrieval.